8 Steps to Retirement for Kentucky Teachers

1 GET YOUR CURRENT FINANCES IN CHECK. It cannot be stressed enough that it is never too early or late to take steps to improve your financial health. Of course, the earlier you start, the easier it will be to meet your goals, especially when it comes to retirement planning. However, do not assume it is a lost cause if you have not started planning yet; you may be surprised at what a little time can do to improve your financial outlook. The most important thing you should do – and quickly – is put your financial house in order. You need to get a handle on all your household financial records: savings, salaries, investments, real estate and other property, credit history and all debts. Then you need to construct your budget. Write down all your household's income and expenses in a month. Review your recent pay stubs, checkbook registers, bank statements, credit card bills, etc. to help reconstruct the details. If this is the first time you are making a budget, you may find it useful to review several months of records. Income may include a salary, wages and tips, social security or pension benefits, child support or alimony and interest and dividends on your savings and investments. Your expenses will likely fall into two categories: fixed and flexible (also called discretionary). Fixed expenses are recurring monthly costs, like rent or mortgage payments, credit card payments, insurance premiums, utility payments, child care, and so on. Flexible expenses are things like food, gifts, entertainment, clothing, etc. Once you've captured a snapshot of your monthly financial transactions, add up all your expenses and subtract them from the sum of all your income. If the number is positive, you are earning more than you are spending each month, and you are on the right path to achieving your financial goals. If the number is zero or below, then you need to take a hard look at where you can make some adjustments in your spending or your earnings each month. Some individuals may find they can bridge the budget gap by working a few extra hours a week, taking on an additional part-time job, performing freelance work or even selling some of their belongings. However, it may be less painful or more realistic to try to trim the fat from your spending habits first. Flexible expenses tend to fluctuate from month to month and allow you the most room to make adjustments in your spending. If you find that your discretionary budget is tight, then you should try to find ways to cut back on your fixed expenses: driving a less expensive vehicle, moving into a smaller home, reducing your usage of electricity or finding a less expensive phone plan are some examples to consider. Next, outline your financial goals, including your ideas of a perfect retirement, and put them in writing. Putting them on paper will help make the goals actually seem tangible and keep you motivated to reach them. Remember to think of short-term and long-term goals, and assign a realistic time frame for achievement. If you have already constructed an outline of your goals, review it and assess the progress you have made. You may find that you are much closer to reaching your financial dreams than you think. Or, you may decide there are new priorities to incorporate into the picture. Either way, putting your priorities in writing can help you and your partner determine the lifestyle you want to share together, now and in the golden years. Also, until you get in the habit of making saving a priority, consider having a certain amount of money automatically taken out of your paycheck or checking account each month and deposited into a savings or investment account. It is really true that if you don't see it, you won't miss it – or, you won't spend it, at least. And you'll probably have a much easier time accumulating savings if you automatically pay yourself first, rather than waiting to see what, if anything, is left over at the end of the month.

The Impact of Starting Early

Average amount saved annually:	$2,000	
Average rate of return:	10.3%	
Age to achieve savings goal:	66	
Starting at age:	26	45
Number of years you save:	40	21
Total Personal Contribution:	$80,000	$42,000
Total Earned (Interest):	$930,022.12	$97,570.67
Total Savings Achieved:	$1,010,022.12	$139,570.67

Source: KTRS

2 GET TO KNOW THE KENTUCKY TEACHERS' RETIREMENT SYSTEM. Kentucky is one of several states where teachers do not participate in Social Security. Instead, members contribute to the Kentucky Teachers' Retirement System (KTRS), a "defined benefit plan" according to the Internal Revenue Code. What that means is regardless of how much you contributed to the retirement system during your eligible employment, you are guaranteed a retirement income for the rest of your life, with your specific allowance determined by a formula involving your years of service, salary and age at retirement. Benefits from KTRS come from contributions of members, the State, and returns on investments. The current member contribution rate is 9.855% of your annual compensation, but university members contribute at a lower rate since they also contribute to Social Security. Your employer deducts the proper contribution from your income each pay period and forwards it to KTRS, where it is then placed in reserve in order to pay your annuity obligation when you retire. You are not allowed to borrow against your contributions to KTRS, and you are only allowed to withdraw your contributions if you permanently separate from service from your eligible employment. Keep in mind that while your contributions to KTRS are not taxed, your retirement payments will be. There are many retirement plans offered by KTRS, and it is a good idea for you to contact the retirement system directly for thorough information on the options available to you. One of the most important features is that your retirement account will be vested when you have completed five years of creditable Kentucky service, which means you will be entitled to future benefits even if you are not currently contributing to the system, as long as you do not withdraw your account. Also, you will be eligible for service retirement without reduction in benefits if you have at least 27 years of eligible service, regardless of your age. Alternatively, if you are at least age 60, you may retire with full benefits if you have at least five years of eligible service. There are other combinations of age and service that will allow you to retire with benefits, but there will likely be a reduction in your retirement income, and you should consult with KTRS for specifics.

Contact Kentucky Teachers' Retirement System (KTRS)
Phone: (800) 618-1687 or (502) 848-8500
Fax: (502) 573-0199
Mail: KTRS, 479 Versailles Road, Frankfort, KY 40601-3868

3 DECIDE HOW AND WHEN YOU WANT TO RETIRE. Many retirement planners will advise you to figure out precisely what activities you plan to pursue when you retire from your current job, and it may be a good idea to spend the few years leading up to your retirement date developing skills you can use for new activities. Whether you plan to travel, take up a new hobby or even start a new job, it is important that you determine what retirement means to you – and how much it is going to cost. Reaching your goals during your retirement is just as significant as reaching the goal of retirement, and requires the same planning. You need to determine your target retirement date, number of years you will require retirement income (life expectancy), a spending plan and the amount of retirement income you will receive. Now, many of us may have an age by which we hope to retire, but it may not always work out that way. You should consider (1) your health and potential health insurance benefits, (2) your eligibility for full retirement benefits, (3) the size of your savings, and (4) the way you and your family feel about retirement. Take into account that if your savings and expected retirement benefits are low, and you reasonably expect to live beyond the normal life expectancy, then the traditional retirement age may not be right for you. Remember, it is most important that you can provide for a quality of life you desire for the entire duration of your retirement, and that may require some adjustments of your plans – whether it is your retirement age or the activities you intend to pursue – but, the sooner you come up with a plan, the more time you will have to put all the necessary preparations in place. Also, keep in mind that as a member of KTRS, you have the potential of earning 100% of your pre-retirement salary. The longer you work, the more your KTRS benefits increase. It may very well be worth it to put in another few years once you become eligible to retire.

4 FORECAST YOUR RETIREMENT EXPENSES. It is impossible to predict exactly how much money you may need to last throughout your retirement, but financial experts recommend using 70% of your final salary as a starting point. That may seem like a lot of money, but for many retired teachers, that is a very doable number. In fact, many KTRS members are able to collect 100% of their pre-retirement salaries after retirement. To give you a better idea of how much money you may need to live on, you need to consider what your expenses will be. Keep in mind that the costs of some of your current expenditures will probably decrease after you retire, like taxes and work-related expenses, if you decide not to go back to work. Other costs may increase, like recreational expenses or insurance. Furthermore, you should account for inflation. The average annual rate of inflation over the past 20 years has been around 3 percent, according to the U.S. Department of Labor. On the back is a list of common retirement expenses. You should take some time to consider your particular retirement goals, and project your expenses accordingly. This exercise will help you determine how much money you may need in order to take the plunge into retirement.

5 DEVELOP A STRATEGY FOR SAVING AND INVESTING TOWARD YOUR RETIREMENT GOALS. Savings and investing are different means to your end goal of retirement, and both deserve your attention when identifying your strategy for reaching a comfortable retirement. When you invest, you purchase property: stocks, bonds, etc. Those assets earn income in various ways, like stock dividends or bond interest or capital gains when you sell a stock at a profit. In general, your rate of return on investments will be greater than what you earn on savings accounts. However, that does not mean everyone should run right out and drain their savings accounts to throw into the stock or bond market; investing comes with risks. You can lose money if the value of an investment decreases, and the government does not insure money that you place in certain investment vehicles (e.g., stocks and securities). By contrast, while you can earn modest interest in a savings or money market deposit account, or in a certificate of deposit, these accounts are also guaranteed against losses up to $100,000 should your bank or credit union fail, provided your financial institution is federally insured. It is important for you to identify the savings and investment strategies that you are comfortable with when planning your retirement. You need to determine how much risk you can withstand, and keep in consideration how much time you have before you want to enjoy the fruits of your labor. If you are unsure of what individual strategy you should take, or what your options are, consider meeting with a certified financial planner or an investment specialist at your bank. These professionals can help you determine your financial needs and what savings and investment strategies are comfortable for you.

Types of Investments

- Money Market Funds are mutual funds that put money in low-risk, short-term investments that come due in 90 days or less.
- The U.S. Treasury issues three types of federally insured securities to pay for government activities. Treasury Bills mature in one year or less. Treasury Notes mature in 2 to 10 years.
- Bonds are loans that investors make to companies or governments. The loans are repaid in a certain number of years. During the life of the loan, investors receive regular interest payments, usually twice a year. Corporate bonds often pay a higher interest rate than municipal bonds, but can be riskier than those backed by a government. Municipal bond interest is free from federal income tax and could be free from state taxes if you live in the state where the bond is issued.
- Stocks are shares of ownership that a company sells to individuals in order to raise the money it needs to conduct business. Owning stock in a company means that your shares will be worth more if the company does well and less if the company does poorly. Stock prices often go up and down. Over the long term, the stock market has generally provided higher returns than many other types of investments. However, many individual stocks have lost money over time.
- Mutual Funds are companies that pool your money with the money of other investors and then invest that money on your behalf. The risk level of a mutual fund will depend on the individual stocks and/or bonds in which the mutual fund invests. For more information, see Investing in Mutual Funds.

Source: AARP

6 PLAN FOR POTENTIAL OBSTACLES ON YOUR ROAD TO RETIREMENT. If you are like many other individuals, you may worry about all the potential roadblocks on your path to financial security. What if a natural disaster strikes close to home? What if there is an unexpected illness in the family? Or, maybe you are concerned about planning for multiple major financial goals, like retirement and a college education for your children or grandchildren. You may find yourself wondering how you can stretch your finances in so many directions and how you will cope if you have to take on an unanticipated expense. Unfortunately, there are no crystal balls to examine or easy answers to give you. Ultimately, the best way to react to a financial emergency is to prepare for it in advance, and that means building up an emergency fund. It can also be one of the hardest goals for families to actually achieve because it can be so tempting to divert that savings elsewhere in the budget; especially if times are tight now, you may think you cannot afford to save. However, you may be surprised that if you start each month by paying yourself first – by putting at least a small portion of your income into an emergency fund – it will become an easy habit to keep. You should start by figuring out the amount of money you need for housing, food, insurance, medical care and other necessities for at least six months. Then set aside small amounts of your money each month until you have an emergency fund equal to at least that amount. With regard to other financial goals that may be competing for the top spot on your to-do list, communicate with your family about the importance and challenges of each of your financial objectives, and work together to develop a strategy for meeting everyone's needs. It can also be very helpful to consult with a financial adviser or retirement planning professional to help you juggle all of your obligations and dreams. Perhaps most importantly, build some flexibility into your retirement plan. We cannot always predict when a setback may occur, but it can be easier to bounce back if we do not have such rigid expectations.

7 PLAN YOUR ESTATE. If you and your partner do not have wills, have them drawn up. If you do have a will, review it to determine whether they should be updated to reflect any changes in your life. Also make it a habit to routinely check the beneficiary designations on all your policies and benefits – don't forget your retirement and pension plans. Make sure both of you know where important documents such as insurance plans, wills, tax information, account numbers, investment information, etc. are kept. Also, regularly review and update your insurance policies, including life, disability, medical and property insurance. No one likes to plan for the loss of life, but it is imperative to consider the need for life insurance. One of the most common reasons for buying life insurance is to replace the loss of income that would occur in the event of your death. It is also commonly used to pay any remaining debts, like mortgages, car loans and credit card debts. Life insurance can also be used to pay for final expenses and estate taxes or to create an estate for your heirs. You are covered by a $2,000 life insurance benefit from the first day of employment in a position covered by KTRS. Retirees are covered by a $5,000 life insurance benefit. These benefits are not subject to state or federal taxes. Health insurance is also very important. Couples who each have the option to use health insurance provided by their employers need to compare benefits and decide whether it make sense to maintain individual coverage or switch to the plan with better benefits. You need to look beyond the monthly premium costs, however. Consider additional expenses, like deductibles and co-payments. Also review the levels of service and coverage offered, including any limitations on your choice of doctors and hospitals or specialized services. As a member of KTRS, you are eligible for medical insurance when you retire. Currently, retirees under age 65 who are not eligible for Medicare are offered coverage through the State Group Health Plan. Retirees who are over age 65 or otherwise eligible for Medicare are offered the self-insured Medicare Eligible Health Plan. Specific questions regarding health, disability or life insurance for retirees should be directed to KTRS.

8 ENJOY THE NEW CHAPTER IN YOUR LIFE. Reaching retirement can be one of the greatest accomplishments of your career, but be prepared that this transition in your life may not be as perfect as you dream it to be. You may find retirement a little too quiet or unfulfilling, or maybe your budget projections will not be accurate enough. That is no reason to panic, as you can certainly contribute your years of teaching experience to the business or non-profit sectors, or maybe even to a local community group. You may even decide to return to the classroom. Whatever the case, don't let your retired status discourage you from being an active member of the community. Kentucky will always need the talents and dedication of teachers like you!

Estimated Annual Cost of Living in Retirement

	Totals If You Were Retired Now (Round Off to Even Hundreds) ($)	Inflation Factor at Time of Retirement in _____ Years (%)	Future Budget ($)
Housing			
Rent or Mortgage Payments			
Property Taxes			
Property Upkeep and Repairs			
Insurance			
Medical			
Dental			
Life			
Disability			
Homeowners			
Auto			
Transportation			
Clothing			
Food			
Savings/Investments			
Health Care Costs			
Personal Care			
Family			
Donations			
Pets			
Education			
Professional Expenses			
Taxes			
Loans			
Legal			
Miscellaneous			
Total			

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